

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC PURCHASED WATER)	CASE NO.
ADJUSTMENT FILING OF POWELL'S VALLEY)	2023-00053
WATER DISTRICT)	

ORDER

On February 15, 2023, Powell's Valley Water District (Powell's Valley District) applied for approval to adjust its rates pursuant to the purchased water adjustment procedure set forth in KRS 278.015 and 807 KAR 5:068.

LEGAL STANDARD

In accordance with KRS 278.015, when a wholesale supplier selling water to a water district increases its rates, the water district has the authority to increase its rate commensurate with the wholesale supplier. The water district must file a copy of the notice from the wholesale supplier showing the increase in the wholesale rate, and a statement of the volume of purchased water used to calculate the rate adjustment. The Commission shall approve the filing by order after the above documents are filed.

Commission regulation 807 KAR 5:068, Section 4(2)(b), states that when submitting the purchased water adjustment filing, "the application shall be submitted . . . no earlier than thirty (30) days prior to the proposed effective date of the supplier's changed rate and no later than twenty (20) days after the utility, without prior commission approval, adjusts its rates to reflect the change in its purchased water costs due to the supplier's changed rate."

DISCUSSION AND FINDINGS

Powell's Valley District purchases water from Beech Fork Water Commission (Beech Fork Commission). On July 11, 2022, Beech Fork Commission notified Powell's Valley District that its wholesale rate would increase from \$2.71 per 1,000 gallons to \$3.25 per 1,000 gallons, as well as an increase in the Kentucky River Authority fee from \$0.022 per 1,000 gallons to \$0.029 per 1,000 gallons effective January 1, 2023. Powell's Valley District proposed to increase the water rates to its customers effective January 1, 2023, to reflect the increased cost of purchased water from Beech Fork Commission. Powell's Valley District did not file its notice until February 15, 2023, which is 45 days after the proposed increase. Under the regulatory period in 807 KAR 5:068, Section 4(2)(b), Powell's Valley District's proposed rates may not be put into effect earlier than January 26, 2023.

Unaccounted-for Water

Commission regulation 807 KAR 5:066, Section 6(3), states that for ratemaking purposes a utility's unaccounted-for water loss shall not exceed 15 percent of the total water produced and purchased, excluding water consumed by a utility in its own operations. In its 2021 Annual Report filed with the Commission, Powell's Valley District reported a water loss of 29.3088 percent.¹ Powell's Valley District's application provides updated purchase and sales information for the period of November 2021 through October 2022. Based upon the updated information in the application and the percentage of other water consumed by the utility in its 2021 Annual Report, Powell's Valley District's

¹ *Annual Report of Powell's Valley District to the Public Service Commission for the Year Ended December 31, 2021* at 57.

unaccounted-for water loss is 27.838 percent for the updated period.² Reduction of Powell's Valley District's unaccounted-for water loss to 15 percent would result in an approximate \$68,071.02 decrease to purchased water expense.³ Potentially, Powell's Valley District is paying approximately \$0.595 per 1,000 gallons sold for expenses associated with unaccounted-for water loss in excess of the 15 percent threshold.⁴ The cost of Powell's Valley District's total water loss is \$147,605.62.⁵

The Commission is placing greater emphasis on monitoring utilities that consistently exceed the 15 percent unaccounted-for water loss threshold. The Commission strongly encourages Powell's Valley District to pursue reasonable actions to reduce its unaccounted-for water loss. Failure by Powell's Valley District to make significant progress toward reducing unaccounted-for water loss may cause the Commission to pursue additional action with the utility.

Financial Condition and Rates

Based on a review of Commission records, Powell's Valley District has not sought a general base rate adjustment since 2009. Powell's Valley District's only rate increases have occurred as a condition for federal financing of a construction project in accordance

² Total Purchases (application PWA Form 1 at 2)	161,705,000
Less Total Sales (application PWA Form 1 at 2)	114,320,260
Less Plant Use (% determined from 2021 Annual Report)	2,369,302
Water Loss – Gallons	45,015,438
Water Loss – Percent	27.838%

³ Water loss above 15% is 0.12838, potential purchased water expense reduction (Total water cost at new wholesale rate of \$530,230.70 times water loss above 15%) equals \$68,071.02.

⁴ Potential purchased water expense reduction divided by sales (\$68,071.02/ (114,320,260/1,000)) equals \$0.595 per 1,000 gallons.

⁵ Total water cost at new wholesale rate of \$530,230.70 times 27.838% water loss equals \$147,605.62.

with KRS 278.023, and two purchased water adjustment filings. In accordance with the provisions of KRS 278.023, the Commission's review of such applications is a limited review of a utility's total financial stability and operational viability. As a result, Powell's Valley District has avoided comprehensive review by the Commission of Powell's Valley District's financial records and operational structure for 14 years.

In Case No. 2019-00041, the Commission discussed the problems that can occur when utilities intentionally avoid a review of their financial records by relying solely on financing cases to increase rates.⁶ A key recommendation from that proceeding was that water districts should monitor the sufficiency of their base rates closely and, in general, apply for base rate adjustments on a more frequent basis.⁷

As documented in annual and audit reports filed with the Commission, Powell's Valley District has been operating at a net income loss from 2017 through 2021, and the utility has not fully funded depreciation during that time. In addition, for 2020 and 2021, Powell's Valley District was operating at a cash basis loss.

⁶ See Case No. 2019-00041, *Electronic Investigation into Excessive Water Loss by Kentucky's Jurisdictional Water Utilities* (Ky. PSC Nov. 22, 2019), final Order.

⁷ See Case No. 2019-00041, Nov. 22, 2019 final Order.

Description / Year	2017	2018	2019	2020	2021
<i>Adjusted Net Income</i>					
Net Income / (Loss) before Contributions	\$ (112,252)	\$ (56,758)	\$ (140,392)	\$ (291,665)	\$ (178,733)
Non-Cash Pension and OPEB Expense / (Income)	64,069	61,902	65,419	73,635	(2,224)
Adjusted Net Income / (Loss) before Contributions	\$ (48,183)	\$ 5,144	\$ (74,973)	\$ (218,030)	\$ (180,957)
Add: Depreciation Expense	198,009	223,327	293,515	273,721	293,246
Subtract: Principal Payments ()	(58,900)	(99,445)	(72,016)	(91,425)	(86,945)
Cash Basis Income	\$ 90,926	\$ 129,026	\$ 146,526	\$ (35,734)	\$ 25,344
<i>Cash and Investments</i>					
Unrestricted Cash and Investments	\$ 143,642	\$ 201,383	\$ 249,434	\$ 141,958	\$ 174,176
Restricted Funds (exclude construction funds from bond proceeds)	274,448	315,017	334,534	298,816	228,359
Adjusted Cash Balances	418,090	516,400	583,968	440,774	402,535
Net Increase (Decrease) in Cash		\$ 98,310	\$ 67,568	\$ (143,194)	\$ (38,239)
<i>Selected Statistical Information</i>					
System Use Percentage	9.19%	3.39%	1.60%	0.74%	1.47%
Water Loss Percentage	19.92%	22.87%	22.44%	26.61%	29.31%
Per Cust Per Month Gallons	3,486	3,933	3,840	3,712	3,879
Revenue	\$ 1,262,355	\$ 1,401,611	\$ 1,395,290	\$ 1,275,637	\$ 1,475,611
Purchased Water Expense	380,084	407,750	389,474	409,205	446,229
Purchased Water Expense Over 15% Water Loss	18,688	32,104	28,969	47,526	63,850
Water Loss Expense Over 15% as Percentage of Total Revenue	1.48%	2.29%	2.08%	3.73%	4.33%

The Commission is concerned about Powell's Valley District's annual financial losses as well as its increasing unaccounted-for water loss. For these reasons, the Commission concludes that Powell's Valley District shall file an application for a general base rate adjustment or an alternative rate adjustment by June 30, 2024, to ensure that its revenue is sufficient to support adequate and reliable service. Any filing for a rate adjustment filed under KRS 278.023 does not relieve Powell's Valley District from this requirement.

Purchased Water Adjustment Factor

In its application, Powell's Valley District proposed a purchased water adjustment factor of \$0.774 per 1,000 gallons. During the 12 months ended October 31, 2022, Powell's Valley District purchased 161,705,000 gallons of water from Beech Fork Commission and sold 114,320,260 gallons of water to its customers. The increase in

the cost of purchased water from Beech Fork Commission is \$88,452.64, resulting in a purchased water adjustment factor of \$0.774 per 1,000 gallons.

The purchased water adjustment factor of \$0.774 per 1,000 gallons, as calculated in Appendix A, and the rates set forth in Appendix B to this Order are fair, just and reasonable and should be approved for water service rendered by Powell's Valley District on and after January 26, 2023, because the rates are supported by evidence of the increase in rates from Powell's Valley District's wholesale water supplier and the volume of purchased water used to calculate the rates in accordance with KRS 278.015.

On or before June 30, 2024, Powell's Valley District should file an application for a general rate adjustment pursuant to 807 KAR 5:001E, Section 16, or an application for an alternative rate adjustment pursuant to 807 KAR 5:076, or in the alternative, file a formal motion with a detailed analysis of its rates and revenues explaining the reasons why no modifications are necessary.

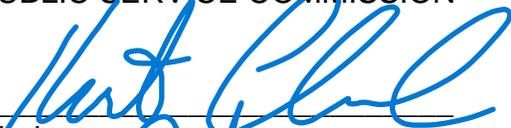
IT IS THEREFORE ORDERED that:

1. The purchased water adjustment factor of \$0.774 per 1,000 gallons is approved.
2. The rates proposed by Powell's Valley District are approved.
3. The rates as set forth in Appendix B to this Order are approved for water service rendered by Powell's Valley District on and after January 26, 2023.
4. Within 20 days of the date of service of this Order, Powell's Valley District shall file with the Commission, using the Commission's electronic Tariff Filing System, revised tariff sheets showing the rates approved herein.

5. On or before June 30, 2024, Powell's Valley District shall file an application for a general rate adjustment pursuant to 807 KAR 5:001E, Section 16, or an application for an alternative rate adjustment pursuant to 807 KAR 5:076, or in the alternative, file a formal motion with a detailed analysis of its rates and revenues explaining the reasons why no modifications are necessary. Any filing for a rate adjustment filed under KRS 278.023 does not relieve Powell's Valley District from this requirement.

6. This case is closed and removed from the Commission's docket.

PUBLIC SERVICE COMMISSION


Chairman


Vice Chairman


Commissioner

ENTERED
MAR 16 2023 bsb
KENTUCKY PUBLIC
SERVICE COMMISSION

ATTEST:


Executive Director

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2023-00053 DATED MAR 16 2023

	Base Rate	New Rate	Change
<u>Beech Fork Water Commission</u>			
Purchases in Gallons	161,705,000	161,705,000	
Wholesale rate	<u>\$ 2.710/1,000</u>	<u>\$3.250/1,000</u>	
Subtotal	\$ 438,220.55	\$ 525,541.25	\$ 87,320.70
<u>Kentucky River Authority Fee</u>			
Purchases in Gallons	161,705,000	161,705,000	
Wholesale rate	<u>\$ 0.0220/1,000</u>	<u>\$0.0290/1,000</u>	
Subtotal	\$ 3,557.51	\$ 4,689.45	\$ 1,131.94
Total	\$ 441,778.06	\$ 530,230.70	\$ 88,452.64

Increased water cost	\$ 88,452.64
Divided by Gallon sold/1,000	<u>114,320,260</u>
Purchased water adjustment factor	\$ 0.7737 per 1,000 gallons

or \$ 0.774 per 1,000 gallons

APPENDIX B

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2023-00053 DATED MAR 16 2023

The following rates and charges are prescribed for the customers in the area served by Powell's Valley Water District. All other rates and charges not specifically mentioned herein shall remain the same as those in effect under authority of the Commission prior to the effective date of this Order.

Monthly Water Rates

First	2,000 Gallons	24.77	Minimum Bill
Next	2,000 Gallons	0.01083	Per Gallon
Next	2,000 Gallons	0.00984	Per Gallon
Over	6,000 Gallons	0.00925	Per Gallon

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